

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL DISTRICT
INGHAM COUNTY

LINDA A. WATTERS, COMMISSIONER,
OFFICE OF FINANCIAL AND INSURANCE SERVICES
FOR THE STATE OF MICHIGAN,

Petitioner,

Case No. 03-1127-CR
Hon. William E. Collette

v

THE WELLNESS PLAN,
a Michigan Health Maintenance Organization,

Respondent.

E. John Blanchard (P28881)
William A. Chenoweth (P27622)
David W. Silver (P24781)
Assistant Attorneys General
Attorneys for The Wellness Plan
Insurance & Banking Division
P. O. Box 30754
Lansing, MI 48909
(517) 373-1160

**PETITION FOR APPROVAL OF THE REHABILITATOR'S PLAN
TO SELL THE RIGHT TO SERVE THE MEMBERS OF THE WELLNESS PLAN**

Linda A. Watters, Rehabilitator of The Wellness Plan, by Michael A. Cox, Attorney General of the State of Michigan, and E. John Blanchard, David W. Silver, and William A. Chenoweth, Assistant Attorneys General, moves for an order approving the Rehabilitator's plan to sell the right to serve the members of The Wellness Plan to Molina Healthcare of Michigan, Inc. and McLaren Health Plan, as more fully described below. In support of this Petition, the Rehabilitator relies on authority granted to her by Sections 8113 and 8114 of the Insurance Code

of 1956, as amended, MCL 500.8113 and MCL 500.8114, and on the facts and rationale set forth in this Petition.

I. STATEMENT OF FACTS

1. The Wellness Plan was placed into rehabilitation pursuant to Chapter 81 of the Insurance Code of 1956, MCL 500.8101 *et seq.*, by order of this Court on July 1, 2003. The Wellness Plan is a health maintenance organization with approximately 103,000 members. It provides health care services in several service areas, although its primary membership is located in southeast Michigan. Most of its members are recipients of health services under Medicaid.

2. Pursuant to MCL 500.8114, the Court appointed Linda A. Watters, the Commissioner of the Office of Financial and Insurance Services, as the Rehabilitator.

3. The Court has exclusive jurisdiction over creditor claims against The Wellness Plan. It is expected that the Rehabilitator's plan to sell the right to serve the members of The Wellness Plan presented by this Petition will generate sufficient funds to satisfy the creditor claims against The Wellness Plan.

4. The Wellness Plan's primary business asset is a Medicaid contract with the Michigan Department of Community Health (DCH). The current Medicaid contract expires on September 30, 2004.

5. An Invitation to Bid with respect to Medicaid contract for the period from October 1, 2004 through September 30, 2006, Bid Number 071I4001168, was issued by the Michigan Department of Management and Budget (DMB) on behalf of DCH on March 23, 2004. The new Medicaid contract will cover the above period. The deadline for submitting a bid was Monday, May 17, 2004. In order to remain economically viable, The Wellness Plan needed to receive a new Medicaid contract.

6. In order to receive a Medicaid contract under the Invitation to Bid, a bidder must meet all applicable statutory financial requirements set forth in the Michigan Insurance Code, including: net worth, minimum capital and surplus, and Risk Based Capital (RBC). Invitation to Bid, Section IV-B, p 76.

7. The Wellness Plan has reported to the Office of Financial and Insurance Services on Form FIS 321 (March 31, 2004) that it has a negative working capital reserve of \$8,566,070. Pursuant to MCL 500.3555(b), The Wellness Plan shall not have a negative working capital reserve.

8. Because The Wellness Plan was not expected to meet the statutory financial requirements and therefore would not be eligible to receive a new Medicaid contract in 2004, the Rehabilitator solicited offers to purchase some or all of the assets of The Wellness Plan in the hope of consummating a sale in time for the prospective purchaser to submit a bid for a new Medicaid contract. Without such a sale of assets to a qualified bidder, it was feared that the DCH would reassign The Wellness Plan's Medicaid members to other HMOs effective no later than October 1, 2004 without compensation to The Wellness Plan or its creditors. After hearing objections from interested parties on April 26 and 30, 2004, the Court approved the sale to Amerigroup by order dated April 30, 2004.

9. On May 6, 2004, Amerigroup notified the Rehabilitator that it was unwilling to complete the purchase of The Wellness Plan's assets as agreed. Accordingly, the Rehabilitator met with the Court on May 10, 2004 to inform the Court and to consider various options in light of Amerigroup's decision and the May 17 deadline for submission of bids for Medicaid contracts under the DMB/DCH Medicaid Invitation to Bid. The Rehabilitator suggested, and the Court agreed, that The Wellness Plan should submit a bid for a Medicaid contract with DCH by the

May 17 deadline. (DCH subsequently did not select The Wellness Plan for a new Medicaid contract beginning October 1, 2004.) On May 11, 2004 this Court issued an order authorizing the Rehabilitator to solicit offers to purchase all or part of the membership of The Wellness Plan from licensed Michigan HMOs that intend to bid for Medicaid contracts with DCH. That order called for such offers to be received by the Rehabilitator no later than 2 PM EDT on June 2, 2004 and set out a tentative timetable subject to adjustment by the Rehabilitator.

10. The Rehabilitator has received offers from six licensed Michigan HMOs and one unsolicited bid from an entity that does not qualify under the May 11, 2004 order and the Rehabilitator's May 12, 2004 solicitation of offers. As explained more fully below, the Rehabilitator is requesting approval from the Court to sell the right to serve The Wellness Plan's membership to two of the licensed HMOs that made offers in response to the Rehabilitator's May 12, 2004 solicitation.

II. THE AUTHORITY OF THE REHABILITATOR TO ACT

12. The Rehabilitator is acting pursuant to authority granted her in Section 8114 of the Insurance Code of 1956, MCL 500.8114, which provides in pertinent part:

(2) The rehabilitator may take such action as he or she considers necessary or appropriate to reform and revitalize the insurer including, but not limited to, the powers in section 8121(1)(f), (l), (m), (r), and (u). The rehabilitator has all the powers of the directors, officers, and managers, whose authority shall be suspended, except as they are redelegated by the rehabilitator. The rehabilitator has full power to direct and manage, to hire and discharge employees subject to any contract rights they may have, and to deal with the property and business of the insurer.

* * *

(4) If the rehabilitator determines that reorganization, consolidation, conversion, reinsurance, merger or other transformation of the insurer is appropriate, he or she shall prepare a plan to effect those changes. Upon application of the rehabilitator for approval of the plan, and after notice and hearings as the court may prescribe, the court may either approve or disapprove the plan proposed, or may modify it

and approve it as modified. A plan approved under this section shall be, in the court's judgment, fair and equitable to all parties concerned. If the plan is approved, the rehabilitator shall implement the plan.

(Emphasis added).

13. The Rehabilitator has legal title to all of the assets of The Wellness Plan pursuant to Section 8113 of the Insurance Code of 1956, MCL 500.8113, which provides in pertinent part:

(1) An order to rehabilitate the business of a domestic insurer, or an alien insurer domiciled in this state, shall appoint the commissioner and his or her successors in office as the rehabilitator, and shall direct the rehabilitator to take immediate possession of the assets of the insurer, and to administer them under the court's general supervision. The filing or recording of the order with the clerk of the circuit court or register of deeds for the county in which the principal business of the company is conducted, or the county in which its principal office or place of business is located, shall impart the same notice as a deed, bill of sale, or other evidence of title duly filed or recorded with that register of deeds would have imparted. The order to rehabilitate the insurer shall by operation of law vest title to all assets of the insurer in the rehabilitator.

(Emphasis added).

III. THE SOLICITATION OF OFFERS PROCESS

14. Faced with the sudden and unexpected unwillingness of Amerigroup to complete the purchase of The Wellness Plan's assets, the Rehabilitator sought an order from the Court authorizing her to solicit offers from licensed Michigan HMOs to purchase the right to serve The Wellness Plan's membership. The Court issued an order on May 11, 2004 granting that request and providing in part as follows:

The Rehabilitator is authorized to consider and evaluate any offers in light of, among other considerations, the following factors:

- The likelihood, in the Rehabilitator's judgment, that a potential buyer will receive a Medicaid contract from the DCH for the period beginning October 1, 2004.
- The degree to which the potential buyer's provider network overlaps with TWP's provider network so that continuity of care will be preserved to the TWP members.

- The ability of the potential buyer to satisfy all financial requirements after completion of the sale.
- The ready availability of financial resources to the potential buyer to complete the sale.
- The likelihood that the sale will be approved by all necessary regulatory agencies, including but not limited to, the Michigan Office of Financial and Insurance Services and the Michigan Department of Community Health.
- The Rehabilitator is authorized to give greater consideration to offers that maximize the purchase price and acquire the greater number of TWP members.
- The extent to which an offer contains any contingencies, such as, but not limited to, the approval of the board of directors or lenders of the potential purchaser.
- The extent to which the offer is subject to adjustments to the purchase price after the offer is submitted, for example, whether the purchase price will be adjusted for loss of membership during a subsequent period.
- No offer will be considered that does not include all of TWP's members in a given county.

[Order Approving the Rehabilitator's Plan to Solicit Offers to Purchase the Membership of The Wellness Plan and Relieving the Rehabilitator of Obligations under the April 30, 2004 Order Approving The Rehabilitator's Plan to Sell Assets of the Wellness Plan to Amerigroup Michigan, Inc., May 11, 2004, pp 6-7.]

15. The Rehabilitator issued a letter May 12, 2004 soliciting offers to serve any of The Wellness Plan's members from all licensed Michigan HMOs. A copy of the solicitation of offers letter is attached to this Petition as Attachment 1.

16. The May 12, 2004 solicitation letter set forth a timeline for the bid process and enumerated factors that the offers should address. The factors included:

1. The financial (cash) resources are readily available to consummate the transaction.
2. The potential buyers will continue to meet all financial requirements after the completion of the transaction.
3. The likelihood the potential buyers will receive a new Medicaid contract effective October 1, 2004.
4. The potential buyers' provider networks are adequate to acquire more members.
5. To ensure continuity of care to TWP members, the extent to which the potential buyers' provider network overlaps with TWP provide network.
6. The likelihood the potential buyers will obtain the necessary regulatory approvals (i.e. OFIS and DCH) for the transfer of members.

7. The extent of any contingencies regarding the completion of the transaction.
8. The extent the purchase price is subject to any potential adjustments in subsequent periods.

17. By the deadline on June 2, 2004, the Rehabilitator received offers from five licensed Michigan HMOs for the purchase of the right to serve the membership of The Wellness Plan. Another offer, from Pro Care Health Plan, was received on June 2, 2004, but after the 2:00 PM deadline.

18. The Rehabilitator carefully reviewed the merits of each of the six proposed offers to determine which offer or offers were in the best interest of The Wellness Plan, its members, the creditors, the providers, and the public, and which offer or combination of offers best satisfied the factors set forth in the Rehabilitator's May 12, 2004 solicitation of offers letter.

19. The Rehabilitator determined that the offers from Molina Healthcare of Michigan, Inc. (Molina) and McLaren Health Plan (McLaren) best satisfy the selection criteria and the interests of The Wellness Plan, its members, the creditors, including the providers, and the public. *Because Molina and McLaren already have established provider networks, neither offer requires that providers of The Wellness Plan be compelled to contract with them to provide services after the effective date of the transfer.* Those two offers will:

- a. maximize the amount of return to the creditors of The Wellness Plan.
- b. provide continuity of care to the approximately 103,000 members of The Wellness Plan.

20. Copies of the offers from Molina and McLaren are attached to this petition as Attachments 2 and 3.

IV. SUMMARY OF THE OFFERS TO PURCHASE THE RIGHT TO SERVE THE MEMBERS OF THE WELLNESS PLAN

21. The Rehabilitator signed confidentiality agreements with 8 licensed Michigan health plans. However, only 6 health plans submitted offers. The Rehabilitator did receive one unsolicited offer. However, the Rehabilitator did not entertain this offer because the offeror is not a Michigan licensed health plan, which was one of the criteria in the court order and the May 12, 2004 solicitation of offers letter. Only one offer, the one from Molina, encompassed all of The Wellness Plan members in all counties served by The Wellness Plan. The Commissioner determined that it was in the best interest of the affected persons to accept offers on a county by county basis as explained below.

22. Wayne County:

Molina is a Michigan licensed HMO that currently contracts with DCH to provide and arrange for health care services to Michigan recipients. Molina is part of a publicly traded healthcare corporation that provides health care in multiple markets. Molina currently operates in Wayne County. Molina offered to purchase all The Wellness Plan's membership, but Molina also indicated it was willing to buy the rights in individual counties. Molina's purchase price for Wayne County was \$15 million (assuming a membership level of 61,560), which equates to a purchase price of approximately \$243.66 per member. Molina's purchase price will not be adjusted on a per member basis unless the level of membership actually transferred on October 1 is more than 15% below the assumed membership level included in Molina's offer. Molina's offer indicates Molina has contracts or letters of intent with providers in Wayne county that overlap The Wellness Plan's provider network to ensure approximately 88.75% of The Wellness Plan's members will have continuity of care with their same health care providers. Molina also indicates it will make its best effort to obtain contracts with providers in the TWP network who

have not yet signed with Molina. Molina's offer indicates it will receive the funds to consummate this transaction from its parent corporation, Molina Healthcare, Inc. and its parent has over \$125 million in cash at March 31, 2004. Therefore, it appears Molina has the funds readily available. Molina indicates in its offer it will continue to meet all the financial reserve and solvency requirements after the transaction is consummated. Finally, Molina has been selected by DCH for a new Medicaid contract beginning October 1, 2004.

The only other offer received for the Wayne county membership was from Pro Care Health Plan. Pro Care offered a purchase price of \$12,600,000 or \$210.00 per member. Pro Care's offer was only for Wayne County. Pro Care indicates it will need to borrow the funds to complete this transaction from the bank. Pro Care indicated in the offer that it has a commitment from the bank for the loan, however, the commitment letter was not submitted as part of Pro Care's offer. Pro Care's purchase price includes an adjustment in the actual amount to be paid based on the actual membership remaining after the first month (November 1) the members are transferred. Pro Care's offer indicates it has a network in Wayne County but there is no comparison of Pro Care's network to TWP's network. Pro Care currently does not have a contract with DCH but has submitted a bid. Pro Care's offer does not discuss whether Pro Care will continue to meet all financial requirements if this transaction were consummated. Since Pro Care only meets the minimum financial requirements as of March 31, 2004 with no membership, it is questionable whether Pro Care would meet the financial requirements after taking on over 60,000 members. Pro Care was not selected by DCH for a new Medicaid contract beginning October 1, 2004.

Based on comparison of the two offers and the qualification of the potential buyers, the Rehabilitator recommends that the Court approve Molina as selected buyer for the Wayne county membership.

23. Macomb County:

Molina is a Michigan licensed HMO that currently contracts with DCH to provide and arrange for health care services to Michigan recipients. Molina is part of a publicly traded healthcare corporation that provides health care in multiple markets. Molina offered to purchase all The Wellness Plan's membership, but Molina also indicated it was willing to buy the rights in individual counties. Molina currently operates in Macomb County. Molina's purchase price for Macomb County was \$400,000 (assuming a membership level of 3,264), which equates to a purchase price of approximately \$122.55 per member. Molina's purchase price will not be adjusted on a per member basis unless the level of membership actually transferred on October 1 is more than 15% below the assumed membership level included in Molina's offer. Molina's offer indicates it has contracts or letters of intent with providers in Macomb County that overlap The Wellness Plan's provider network to ensure approximately 36.95% of The Wellness Plan's members will have continuity of care with their same health care providers. Molina also indicates it will make its best effort to obtain contracts with providers in the The Wellness Plan's network who have not yet signed with Molina. Molina's offer indicates it will receive the funds to consummate this transaction from its parent corporation, Molina Healthcare, Inc. and its parent has over \$125 million in cash at March 31, 2004. Therefore, it appears Molina has the funds readily available. Molina indicates in its offer it will continue to meet all the financial reserve and solvency requirements after the transaction is consummated. Finally, Molina has been selected by DCH for a new Medicaid contract beginning October 1, 2004.

Total Health Care (Total) is a licensed Michigan health plan that has over 25 years of experience serving Medicaid beneficiaries. Total's offer was for Macomb, Oakland, and Genesee counties. The offer did not indicate that Total would accept anything other than all three counties, but The Rehabilitator did a comparison on a county level basis. Total's purchase price for the Macomb membership is \$217 per member with an anticipated level of membership of 4,800, which equates to \$1,041,000. The final purchase price will be adjusted based on the number of members that actually transfer on October 1, 2004. Total's offer indicates its has sufficient provider network to take on these additional members and its provider network overlaps The Wellness Plan's provider network to ensure approximately 55% of The Wellness Plan's members will have continuity of care with their same health care providers. Total's offer indicates it will offer contracts to all The Wellness Plan's primary care providers. Total's proposal indicates a newly formed holding company will borrow \$6,000,000 to consummate this transaction. There are issues related to the formation of a new holding company that would need to be addressed. A commitment from the bank was attached to the offer. It appears funds would need to come from Total Health's operations to repay the loan. The offer indicates that Total would comply with risk-based capital requirements after the transaction. The DCH did not select Total for a new Medicaid contract beginning October 1, 2004.

Midwest Health Plan (Midwest) is a Michigan licensed HMO and has served Medicaid beneficiaries for over 10 years. Midwest currently provides services in Wayne, Oakland, Macomb and Washtenaw counties. Midwest's offer is only for the Macomb county membership. Midwest offered \$100 per member who remains with Midwest three months after the effective date of the new Medicaid contract. Midwest's offer indicates it has a sufficient provider network to take on the TWP membership and its provider network has some overlap with The Wellness

Plan's network so there would be some continuity of care to some The Wellness Plan's members. The offer indicates Midwest will attempt to contract with The Wellness Plan's providers in order to maximize continuity of care with the exception of laboratory services. Midwest indicates it has sufficient funds readily available for this transaction and will continue to meet all financial requirements after the transaction.

Based on comparison of the offers and the qualifications of the potential buyers, the Rehabilitator recommends Molina be approved as the buyer for the Macomb county membership. Molina's purchase price was higher than Midwest's. Total's actual purchase price was higher than Molina's, but DCH did not select Total for a new Medicaid contract.

24. Oakland County:

Molina is a Michigan licensed HMO that currently contracts with DCH to provide and arrange for health care services to Michigan recipients. Molina is part of a publicly traded healthcare corporation that provides health care in multiple markets. Molina currently operates in Oakland County. Molina's purchase price for Oakland County was \$550,000 (assuming a membership level of 15,464), which equates to a purchase price of approximately \$35.57 per member. Molina's purchase price will not be adjusted on a per member basis unless the level of membership actually transferred on October 1 is more than 15% below the assumed membership level included in Molina's offer. Molina's offer indicates it has contracts or letters of intent with providers in Oakland county that overlap The Wellness Plan's provider network to ensure approximately 73.74% of The Wellness Plan's members will have continuity of care with their same health care providers. Molina also indicates it will make its best effort to obtain contracts with providers in the The Wellness Plan's network who have not yet signed with Molina. Molina's offer indicates it will receive the funds to consummate this transaction from its parent

corporation, Molina Healthcare, Inc. and its parent has over \$125 million in cash at March 31, 2004. Therefore, it appears Molina has the funds readily available. Molina indicates in its offer it will continue to meet all the financial reserve and solvency requirements after the transaction is consummated. Finally, Molina has been selected by DCH for a new Medicaid contract beginning October 1, 2004.

Total Health Care (Total) is a licensed Michigan health plan that has over 25 years of experience serving Medicaid beneficiaries. Total's offer was for Macomb, Oakland and Genesee counties. The offer did not indicate that Total would accept anything other than all three counties but we still did our comparison on a county level basis. Total Health Care purchase price for the Oakland membership is \$217 per member with an anticipated level of membership of 8,500, which equates to \$1,844,500. The final purchase price will be adjusted based on the number of members that actually transfer on October 1, 2004. Total's offer indicates its has sufficient provider network to take on these additional members and its provider network overlaps The Wellness Plan's provider network to ensure approximately 15% of The Wellness Plan's members will have continuity of care with their same health care providers. Total's offer indicates it will offer contracts to all The Wellness Plan's primary care providers. Total's proposal indicates a newly formed holding company will borrow \$6,000,000 to consummate this transaction. There are issues related to the formation of a new holding company that would need to be addressed. A commitment from the bank was attached to the offer. It appears funds would need to come from Total Health's operations to repay the loan. The offer indicates that Total would comply with risk-based capital requirements after the transaction. The DCH did not select Total for a new Medicaid contract beginning October 1, 2004.

Based on comparison of the offers and the qualifications of the potential buyers, the Rehabilitator recommends that Molina be approved as the buyer for the Oakland county membership. Total's actual purchase price was higher than Molina's, but DCH did not select Total for a new Medicaid contract beginning October 1, 2004.

25. Muskegon/Oceana Counties:

Molina is a Michigan licensed HMO that currently contracts with the Michigan Department of Community Health to provide and arrange for health care services to Michigan recipients. Molina is part of a publicly traded healthcare corporation that provides health care in multiple markets. Molina currently operates in Muskegon/Oceana counties. Molina's purchase price for Muskegon/Oceana counties was \$3,000,000 (assuming a membership level of 10,455), which equates to a purchase price of approximately \$286.94 per member. Molina's purchase price will not be adjusted on a per member basis unless the level of membership actually transferred on October 1 is more than 15% below the assumed membership level included in Molina's offer. Molina's offer indicates it has contracts or letters of intent with providers in Muskegon/Oceana counties that overlap The Wellness Plan's provider network to ensure approximately 99.28% in Muskegon and 39.92% in Oceana of TWP's members will have continuity of care with their same health care providers. Molina also indicates it will make its best effort to obtain contracts with providers in the The Wellness Plan's network who have not yet signed with Molina. Molina's offer indicates it will receive the funds to consummate this transaction from its parent corporation, Molina Healthcare, Inc. and its parent has over \$125 million in cash at March 31, 2004. Therefore, it appears Molina has the funds readily available. Molina indicates in its offer it will continue to meet all the financial reserve and solvency

requirements after the transaction is consummated. Finally, Molina has been selected by DCH for a new Medicaid contract beginning October 1, 2004.

Health Plan of Michigan (Health Plan) is a licensed Michigan HMO. Health Plan's offer was for the members in Genesee, Muskegon and Oceana. The offer did indicate that Health Plan would consider accepting membership in any one of the counties versus all three counties. Health Plan's offer was \$50 per member (assuming a membership of 11,809) for a purchase price of \$590,450. Health Plan currently operates in Muskegon and Oceana counties. The purchase price would be adjusted based on the number of members that remained with Health Plan three months after the purchase date. Health Plan provided a list of its providers in the three counties and indicates it has some providers that overlap The Wellness Plan's provider network. Health Plan of Michigan indicates it has adequate cash resources to consummate this transaction and would continue to meet all financial requirements. Health Plan's offer is contingent on it receiving a new contract. The DCH did select Health Plan for a new Medicaid contract for Muskegon and Oceana Counties. .

Based on comparison of the two offers and the qualification of the potential buyers, the Rehabilitator recommends that Molina be approved as the buyer for the Muskegon/Oceana counties membership.

26. Genesee/Lapeer Counties:

McLaren Health Plan (McLaren) is a Michigan licensed HMO that currently contracts with DCH to provide and arrange for health care services to Michigan recipients. McLaren is a wholly owned subsidiary of McLaren Health Corporation, the 4th largest integrated health system in the State of Michigan. McLaren Health Care Corporation generated over \$2 billion in revenues in 2003 and has cash reserves of over \$387 million. McLaren's offer is \$3,894,150

(assuming a membership of 11,982), which equates to \$325 per member. The final purchase price will only be adjusted if the membership that is actually transfers on October 1 is 10% below the assumed level of 11,892, then the price will move strictly to a \$325 per member offer. McLaren's offer indicates it has a sufficient provider network to serve the The Wellness Plan's members and that its provider network overlaps The Wellness Plan's provider network so approximately 97% of the members in Genesee and 100% of the members in Lapeer can continue to see their health The Wellness Plan's care providers. McLaren's offer indicates it has sufficient cash readily available and will continue to meet all financial requirements. The DCH selected McLaren for a new Medicaid contract. McLaren has removed a problematic contingency from its offer that it be allowed to collaborate with DCH on the letter that is sent to TWP members.

Molina is a Michigan licensed HMO that currently contracts with DCH to provide and arrange for health care services to Michigan recipients. Molina is part of a publicly traded healthcare corporation that provides health care in multiple markets. Molina's purchase price for Genesee County is \$3,000,000 (assuming a membership level of 12,078), which equates to a purchase price of approximately \$248.39 per member. Molina's purchase price for Lapeer County is \$50,000 (assuming a membership level of 315), which equates to a purchase price of approximately \$158.73 per member. Molina's purchase price will not be adjusted on a per member basis unless the level of membership actually transferred on October 1 is more than 15% below the assumed membership level included in Molina's offer. Molina's offer indicates it has contracts or letters of intent with providers in Genesee/Lapeer counties that overlap The Wellness Plan's provider network to ensure approximately 98.85% in Genesee and 40.32% in Lapeer of The Wellness Plan's members will have continuity of care with their same health care

providers. Molina also indicates it will make its best effort to obtain contracts with providers in The Wellness Plan's network who have not yet signed with Molina. Molina's offer indicates it will receive the funds to consummate this transaction from its parent corporation, Molina Healthcare, Inc. and its parent has over \$125 million in cash at March 31, 2004. Therefore, it appears Molina has the funds readily available. Molina indicates in its offer it will continue to meet all the financial reserve and solvency requirements after the transaction is consummated. Finally, Molina has been selected by DCH for a new Medicaid contract beginning October 1, 2004

Total Health Care (Total) is a licensed Michigan health plan that has over 25 years of experience serving Medicaid beneficiaries. Total's offer was for Macomb, Oakland and Genesee counties. The offer did not indicate that Total would accept anything other than all three counties, but the Rehabilitator did a comparison on a county level basis. Total's purchase price for the Genesee membership is \$217 per member with an anticipated level of membership of 12,200, which equates to \$2,647,400. The final purchase price will be adjusted based on the number of members that actually transfer on October 1, 2004. Total's offer indicates its has sufficient provider network to take on these additional members and its provider network overlaps TWP's provider network to ensure approximately 87% of The Wellness Plan's members will have continuity of care with their same health care providers. Total's offer indicates it will offer contracts to all The Wellness Plan's primary care providers. Total's proposal indicates a newly formed holding company will borrow \$6,000,000 to consummate this transaction. There are issues related to the formation of a new holding company that would need to be addressed. A commitment from the bank was attached to the offer. It appears funds would need to come from Total's operations to repay the loan. The offer indicates that Total would

comply with risk-based capital requirements after the transaction. The DCH did not select Total for a new Medicaid contract beginning October 1, 2004.

Health Plan of Michigan (Health Plan) is a licensed Michigan HMO. Health Plan's offer was for the members in Genesee, Muskegon and Oceana. The offer did indicate that Health Plan would consider accepting the membership in any one of the counties versus all three counties. Health Plan's offer was \$50 per member (assuming a membership of 12,229 in Genesee County) for a purchase price of \$611,450 for Genesee County. Health Plan currently operates in Genesee County. The purchase price would be adjusted based on the number of members that remained with Health Plan three months after the purchase date. Health Plan provided a list of its providers in the three counties and indicates it has some providers that overlap The Wellness Plan's provider network. Health Plan of Michigan indicates it has adequate cash resources to consummate this transaction and would continue to meet all financial requirements. Health Plan's offer is contingent on it receiving a new contract. DCH did not select Health Plan for a new contract for Genesee County beginning October 1, 2004.

Based on comparison of the four offers for Genesee and two offers for Lapeer and the qualification of the potential buyers, the Rehabilitator recommends that McLaren be approved as the buyer for the membership in Genesee/Lapeer counties.

V. TIMETABLE, COURT APPROVAL, CLOSING, EFFECTIVE DATE

27. It is necessary to have a timely decision on this petition due to the requirements of the DCH bid process, the time necessary to negotiate definitive purchase agreements, and because the buyers and the Rehabilitator need time to take actions to effectuate a smooth transition for the members to ensure continuity of care. For example, the buyers will need to

print new ID cards and notify their providers of the change. Moreover, if no sale of the right to serve the members of The Wellness Plan is approved and implemented by contract, then the DCH must have sufficient time to notify the members of The Wellness Plan to allow them to choose another Medicaid HMO. Therefore, it is essential that this Court act on this petition as soon as possible to allow the Rehabilitator sufficient time to negotiate definitive purchasing agreements with the HMO or HMOs selected for the purchase.

28. If this Court approves the Rehabilitator's recommendation immediately following the July 21, 2004 hearing, the Rehabilitator anticipates she can finalize and execute a purchase agreement or agreements within the available time. The Rehabilitator anticipates that the parties will close on the transaction by September 30, 2004, and the sale will have an effective date of October 1, 2004.

VI. NOTICE

29. The Rehabilitator will provide notice to interested persons by mail and publication as provided by this Court's June 18, 2004 Order Regarding Notice Of Hearing On The Petition For Approval Of The Rehabilitator's Plan To Sell The Right To Serve The Members Of The Wellness Plan.

RELIEF REQUESTED

The Rehabilitator's plan to sell the right to serve the members of The Wellness Plan to Molina and McLaren is intended to provide the greatest relief possible to the creditors of The Wellness Plan while protecting the interest of members and the public. The Rehabilitator's plan is fair and equitable to The Wellness Plan's creditors, members and the public. Accordingly, the Rehabilitator's proposed sale should be approved.

Based on the foregoing, the Rehabilitator requests that the Court enter an order that:

1. Approves the Rehabilitator's plan and authorizes the Rehabilitator to negotiate a definitive purchase agreement with Molina and McLaren for the sale of the right to serve the membership of The Wellness Plan as outlined in the Rehabilitator's petition and such other agreements as may be necessary to effectuate the sale and transfer of the members.

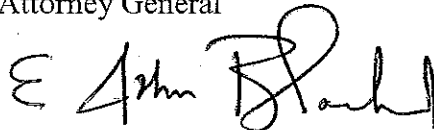
2. Provides that the Wellness Plan's Medicaid Provider Agreements will remain in full force and effect until the effective date of the transfer of The Wellness Plan members to Molina and McLaren.

3. Provides that all liabilities and obligations of The Wellness Plan that accrue before the effective date of the transfer of The Wellness Plan members shall remain with The Wellness Plan and shall be paid, discharged or otherwise resolved as part of this Court's receivership proceedings, and Molina and McLaren shall have no liability of any kind for such liabilities and obligations. The Court will retain exclusive jurisdiction to resolve any liabilities or obligations that are asserted against Molina or McLaren after the Closing.

4. Provides such other and further direction as may be necessary to fully implement the proposed transaction.

Respectfully submitted,

Michael A. Cox
Attorney General

A handwritten signature in black ink, appearing to read "E John Blanchard", is written over the typed names of the Assistant Attorneys General.

E. John Blanchard (P28881)
William A. Chenoweth (P27622)
David W. Silver (P24781)
Assistant Attorneys General
Insurance & Banking Division
P. O. Box 30754
Lansing, MI 48909



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
DAVID C. HOLLISTER, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

May 12, 2004

Dear Chief Executive Officer:

As you may be aware, Amerigroup Corporation has informed the Rehabilitator it is unwilling to complete the purchase of the assets of The Wellness Plan (TWP). The Rehabilitator, with court approval, intends to execute a plan to sell the assets of TWP. It is vitally important to ensure continuity of care to the members and maximize the value to the TWP creditors. Given the Michigan Department of Community Health's (MDCH) firm deadline of May 17th for the submission of bids to receive a new Medicaid contract, the Rehabilitator and court are soliciting offers from only licensed Michigan health plans. The Rehabilitator and MDCH processes are separate. MDCH process and timeline remain unchanged. This letter outlines the Rehabilitator's process and gives all licensed Michigan health plans an equal opportunity to participate.

If you are interested in purchasing the rights to serve any of the TWP membership, please contact the Rehabilitator's staff at (517) 335-1742 by no later than 5 p.m. on May 14. All interested parties will be required to sign confidentiality agreements to protect the membership information and trade secrets of TWP by no later than May 18th. Once confidentiality agreements are signed, information can be provided to the interested parties to allow the parties to submit reasonable offers. The Rehabilitator will facilitate a period of due diligence. Interested parties must submit their offers no later than June 2 at 2:00 p.m. e.d.t. Interested parties will need to clearly indicate what counties or members they wish to purchase. Greater consideration will be given to buyers that will maximize the purchase price and acquire the most membership as part of the transaction. However, all offers, even for partial purchase of membership (i.e. counties), will be considered. The Rehabilitator reserves the right in her sole discretion to accept the offer of one or multiple buyers to maximize the value to the creditors. The Rehabilitator also reserves the right to refuse all offers in her sole discretion. The Rehabilitator reserves the right to make available to the court and the public all offers received as part of this process. Finally, any purchase of the membership is subject to approval by the court.

In their offers, interested parties will need to adequately demonstrate to the Rehabilitator:

1. The financial (cash) resources are readily available to consummate the transaction.
2. The potential buyers will continue to meet all financial requirements after the completion of the transaction.
3. The likelihood the potential buyers will receive a new Medicaid contract effective October 1, 2004.
4. The potential buyers' provider networks are adequate to acquire more members.
5. To ensure continuity of care to TWP members, the extent to which the potential buyers' provider network overlaps with TWP provider network.

ATT. 1

Chief Executive Officer
May 12, 2004
Page 2

6. The likelihood the potential buyers will obtain the necessary regulatory approvals (i.e. OFIS and DCH) for the transfer of members.
7. The extent of any contingencies regarding the completion of the transaction.
8. The extent the purchase price is subject to any potential adjustments in subsequent periods.

If your health plan is interested in exploring this opportunity, please indicate your intentions immediately by contacting Judy Weaver (517) 335-1742. All offers should be submitted to Commissioner Linda A. Watters, Rehabilitator of The Wellness Plan, P.O. Box 30220, Lansing, Michigan 48909.

Sincerely,



Linda A. Watters
Rehabilitator
The Wellness Plan



June 1, 2004

DIVISION OF INSURANCE
RECEIVED

JUN 02 2004

LANSING, MICHIGAN

Commissioner Linda A. Watters
Rehabilitator of The Wellness Plan
P.O. Box 30220
Lansing, MI 48909

Re: Offer to Purchase the Rights to Serve The Wellness Plan membership

Dear Commissioner Watters:

Molina Healthcare of Michigan, Inc. (MHM) is pleased to submit this proposal to purchase the rights to serve The Wellness Plan (TWP) membership. MHM's proposal is submitted in response to the Rehabilitator's May 12, 2004 letter soliciting offers to purchase the rights to serve the TWP membership. MHM has executed a confidentiality agreement as required in the May 12 letter.

Bid:

A. Affirmative Statement

- a. Molina Healthcare, Inc (Molina) affirmatively represents that there are no existing legal restrictions to the bidder and its expected management team that would preclude them from being licensed in Michigan to operate an HMO and participate in the Medicaid program and, if relevant to the bid, the commercial business. Furthermore, Molina Healthcare of Michigan, Inc. is a Michigan licensed HMO and currently contracts with the Michigan Department of Community Health to provide and arrange for health care services to Medicaid patients.
- b. Molina affirmatively represents that there are no known current, pending or expected legal, financial or regulatory proceedings or circumstances involving the bidder that would materially adversely affect its ability to complete the proposed transaction or operate a financially solvent HMO in Michigan.

B. Detail of Bid Proposal

1. *Assets being acquired* – MHM is prepared to offer \$22 million for the rights to serve all Medicaid members enrolled with TWP (the TWP contract). In the alternative, if the Rehabilitator decides to accept offers on portions of the membership, then MHM has provided a breakdown of the purchase price for specific counties/service areas. MHM requests that the Rehabilitator refer to Attachment A if considering this alternative offer.

ATT. 2

2. ***Availability of funds*** - Molina Healthcare, Inc., Parent Company of MHM, will be providing the funds to MHM to facilitate the consummation of this transaction. Molina Healthcare, Inc. has over \$125 million in cash at March 31, 2004.
3. ***Financial reserves and solvency of bidder*** - MHM has historically and does currently exceed its statutory financial solvency requirements. In addition, as part of the Invitation to Bid (ITB) application process, Molina Healthcare Inc. has recently transferred \$20 million to MHM. As a result of this capital infusion, MHM's equity levels will meet or exceed projected capital requirements for a plan with 270,000 members. If all of TWP's membership is assigned to MHM, then MHM's total enrollment after the transfer will be approximately 190,000.

The revenue on which the capital projections are based was calculated using the premium rates that MHM will receive as of Oct. 1, 2004.
4. ***Likelihood of receiving Medicaid contract effective Oct. 1, 2004*** - MHM completed and submitted an ITB response on May 17, 2004. MHM believes that based upon its provider network capacity, quality scores, and financial position, there is a high degree of certainty that the plan will receive a new Medicaid contract.
5. ***Adequacy of Provider Network*** - MHM has network capacity to provide healthcare services to 270,000 members.
6. ***Overlap of MHM provider network with TWP provider network*** - MHM is either contracted with or has obtained letters of intent with a significant number TWP's provider network. Attachment B shows the overlap of the two networks by PCP and by region. Over 85% of TWP membership utilizes primary care physicians that are either already contracted with MHM or are covered via a letter of intent to contract with MHM. It is also MHM's intent to ensure continuity of care to the TWP members, and the plan will make its best effort to obtain contracts with providers in the TWP network who have not yet signed with MHM.
7. ***Regulatory approvals*** - MHM is confident that if its proposal is selected, approval by all necessary regulatory agencies will be obtained including, but not limited to the Michigan Office of Financial and Insurance Services (OFIS) and the Michigan Department of Community Health (DCH). MHM has a history of successfully completing similar transactions to the one contemplated here. In 2002, MHM obtained regulatory approval to transfer 5,000 Medicaid members into the plan from CareChoices. More recently, we received approval and successfully completed the transfer of membership from two plans. In August, 2003 roughly 9,300 members were transferred from Community Choice Michigan and in October, 2003 Community Care Plan transferred more than 32,000 members to MHM. During the transition period, MHM worked closely with selling health plans, OFIS and DCH in order to facilitate the membership transfer smoothly.

8. **Contingencies** – This offer is subject to the negotiation and signing of a Definitive Agreement. It is also subject to appropriate approvals of our Board of Directors, regulatory agencies, and the Circuit Court for the 30th Judicial District.
9. **Purchase Price Adjustments** – The purchase price is conditioned on the actual number of members transferred to MHM. If, on the date of transfer, there has been a material change in enrollment, MHM reserves the right to adjust the price accordingly. For purposes of this section, a “material change” in enrollment shall mean an increase or decrease greater than 15% (the “Material Change Amount”) from the base line as of the date the Definitive Agreement is signed. TWP will be held harmless for enrollment decreases up to 15%. To the extent there is a material change in enrollment, the purchase price shall be adjusted on a pro rata basis for the difference between the actual change in enrollment and the Material Change Amount.
10. **Employment** – MHM would give first preference to qualified TWP employees for new positions resulting from the additional membership, as well as with regard to any other openings. MHM would welcome resumes and applications, and would schedule interviews with any interested TWP employees for consideration with regard to current and future openings.

C. Contact Information

If you have any questions or need additional information, please contact

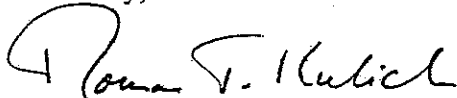
John Molina
Executive Vice President
Molina Healthcare, Inc.
One Golden Shore Dr.
Long Beach, CA 90802
Phone #: (562) 435-3666 x1128
Fax #: (562) 495-7770
E-mail: Johnmo@molinahealthcare.com

or

Roman T. Kulich
President & CEO
Molina Healthcare of Michigan, Inc.
100 West Big Beaver, Ste. 600
Troy, MI 48084
Phone #: (248) 925-1710
Fax #: (248) 925-1719
E-mail: romank@molinahealthcare.com

Thank you for your consideration.

Sincerely,



Roman T. Kulich
President & CEO
Molina Healthcare of Michigan, Inc.

McLAREN HEALTH PLAN

Request to Purchase the Rights
To Serve
The Wellness Plan (TWP)
Membership

TABLE OF CONTENTS

BID SUBMISSION PAGES 1 - 7

APRIL 2004 BALANCE SHEET ATTACHMENT 1

1ST QUARTER 2004 FILINGS ATTACHMENT 2

HURLEY PHO OF MID-MICHIGAN LETTER OF SUPPORT ATTACHMENT 3

ATT. 3

McLAREN
HEALTH PLAN
A McLAREN HEALTH SERVICE



June 2, 2004

Ms. Linda A. Watters, Rehabilitator
The Wellness Plan
P.O. Box 30220
Lansing, MI 48909

Dear Ms. Watters,

This letter serves as McLaren Health Plan's offer to purchase the rights to serve The Wellness Plan's (TWP) 11,982 members (actual member count as of June 1, 2004) in the counties of Genesee and Lapeer. You have requested that McLaren Health Plan adequately demonstrate its ability to ensure continuity of care for TWP members in these counties as well as maximize the value to the TWP creditors. Below is the supporting documentation:

1. BIOGRAPHY and EXPERIENCE

Parent Corporation

McLaren Health Plan is a non-profit Michigan HMO, which has had a contract with the Department of Management and Budget to provide and arrange for the health care services to Michigan Medicaid Managed Care recipients since mid 1998. McLaren Health Plan is a wholly owned subsidiary of McLaren Health Care Corporation, the 4th largest integrated health system in the State of Michigan. McLaren Health Care Corporation, one of the strongest health systems in the State, generated over \$2 billion in revenues in CY 2003, over \$387 million in cash reserves, \$1 billion in total assets and holds a AA- bond rating according to Fitch.

In addition to McLaren Health Plan, McLaren Health Care Corporation owns four acute care hospitals, two sub-specialty hospitals, the largest non-profit full service home health care company in Michigan, an off-shore captive, employs over 100 primary care physicians, 163 specialists and residents as well as over 10,000 support personnel in the greater mid-Michigan region.

The President & CEO of the corporation, Mr. Phil Incarnati, in concert with the McLaren Health Care Corporation Board of Directors, continues to demonstrate strong support for Michigan's Medicaid Managed Care Program both at the local and national levels. Mr. Incarnati continues to advocate for the passage of the Medicaid initiatives the Governor's office is putting forth. McLaren Health Plan

is fortunate to have this unwavering leadership and support from its parent as it continues to fulfill its mission of caring for the Medicaid Managed Care members.

Senior Management Experience

McLaren Health Plan's President & CEO is Ms. Kathy Kendall, B.S.N., M.M. Ms. Kendall has over 22 years of HMO experience and had primary responsibility for beginning McLaren Health Plan, which has grown to almost 34,000 Medicaid covered lives. One key factor in McLaren Health Plan's success is the depth of HMO experience the senior executives possess in both Medicaid and commercial business. This senior team has over 110 years of combined experience directly related to HMO operations.

Financial Strength

McLaren Health Plan has greatly benefited from the vast experience the senior team possesses, evidenced by:

- Administrative Cost of 7.9% for CY 2003
- Administrative Cost of 6.8% for 1st Quarter 2004
- Risk Based Capital is 577% as of December 31, 2003
- Asset Base has grown to \$25 million and current equity is \$14,136,656 based upon 33,018 members as of April 30, 2004

Quality

McLaren Health Plan achieved NCQA Accreditation Status of "Excellent" in September 2003 with a *score of 69.98 points out of a possible 70*. Of all current Michigan "Medicaid Only" HMOs, McLaren Health Plan is the only one to receive a status of "Excellent" by NCQA. McLaren Health Plan prides itself on implementing many unique quality programs. As a result McLaren Health Plan has experienced a decrease in our health care costs from \$140.94 pmpm in 2001 to \$128.50 pmpm in 2003 despite the continued rise of medical inflation.

Partnering with Providers

McLaren Health Plan's approach with providers is one of "partnering". All of our service area expansion has been *at the request* of local physicians and hospitals practicing in those counties. This is in part due to McLaren Health Plan's positive reputation for removing many of the traditional managed care obstacles providers face and adjudicating 98% of our claims within 30 days. We support our physicians to "do what they are best at", providing medical care, and trust them to deliver or arrange for the care they deem is most appropriate. This philosophy is one of our most successful attributes at building strong relationships with our physician and hospital providers.

Member Grievances

McLaren Health Plan prides itself on effectively communicating and educating our members. This bears out when reviewing the number of complaints and grievances received by the Plan as well as by the State. In CY 2003, McLaren Health Plan had only four Administrative Tribunal Hearings, which is .00001 per

member. Two were dismissed prior to the hearing while the other two were settled in favor of McLaren Health Plan. This clearly demonstrates McLaren Health Plan's equitable treatment of its members, effective communication and continued diligence to resolve all our member's concerns.

Relationship with the State Regulators

One final key point worthy of recognition is McLaren Health Plan's consistent responsiveness to any and all MDCH and OFIS requests and timeliness over the past five years. We have been complimented numerous times by our various regulatory liaisons for always exhibiting this responsive behavior regardless of whom they speak with at McLaren Health Plan. We would encourage you to speak with any of these individuals to verify these statements.

2. PURCHASE PRICE

McLaren Health Plan is offering to purchase all TWP members of Genesee and Lapeer Counties (11,982 members as of June 1, 2004) for a **price of \$3,894,150**. This amount shall be payable in cash in full on the date that the membership is transferred to McLaren Health Plan.

McLaren Health Plan understands and acknowledges that there may be an attrition of membership from the date of this offer to October 1, 2004 when transfer of members occurs. In light of that, we are still offering to pay the proposed full purchase price down to a "floor" of 10,784 members. This allows for a 10% attrition of the current TWP membership between now and October 1, 2004 with full risk assumed by McLaren Health Plan.

However, in the unlikely event TWP membership falls below the established floor of 10,784 members, McLaren Health Plan will move from the flat purchase offer of \$3,894,150 to \$325 for each member that is actually transferred to McLaren Health Plan on October 1, 2004. Instead of TWP's creditors bearing the risk of potential attrition of TWP membership between now and October 1, McLaren Health Plan will absorb that risk up to an attrition rate of 10%. We believe structuring our proposal in this manner enhances the overall value of this offer to the creditors while maintaining fiscal soundness for McLaren Health Plan and trust the State will give it due consideration.

We also realize members may select the health plan of their choice during the statewide open enrollment period this August. While movement of members from one health plan to another has historically been approximately 3% in the aggregate, a significant factor to a health plan's enrollment is the auto-assignment process. This process is under the direct control of the State.

As an act of good faith we would encourage the State to closely manage the auto-assignment process in these two counties between now and October 1. The goal we would like to see is to either keep TWP's membership as close as possible to the current 11,982, or if that is not possible, direct more of the auto-assigned

members to McLaren Health Plan to minimize the potential deficit. This is not a contingency; rather it's a request.

3. **FINANCIAL RESOURCES**

McLaren Health Plan has the financial (cash) resources available immediately to consummate the transaction. Attached is our April 2004 Balance Sheet (*ATTACHMENT 1*) as well as 1st Quarter 2004 filings (*ATTACHMENT 2*).

4. **OFIS FINANCIAL REQUIREMENTS**

Due to our strong financial position, McLaren Health Plan exceeds, and will continue to exceed, all OFIS financial requirements after the completion of the transaction. If OFIS determines McLaren Health Plan should strengthen its balance sheet after the transaction, McLaren Health Care Corporation stands ready and willing to provide additional capital. Highlighted below are McLaren Health Plan's key financial indicators both before the transaction and after purchase, based upon the April 30, 2004 financial statements:

	<u>Prior to Purchase</u>	<u>Projected After Purchase</u>
Cash Balance:	\$19,430,169	\$15,536,019
Working Capital:	\$ 9,550,364	\$ 5,656,214
Net Worth:	\$14,136,656	\$10,242,506
Risk Based Capital:	577%	*493%

*Projected RBC Based Upon NAIC 2003 Forecasting Model

5. **NEW MEDICAID CONTRACT**

It is *highly likely* McLaren Health Plan will be awarded a new Medicaid contract effective October 1, 2004. According to the RFP, the State will award points to each bidder based upon specific quality scores, their enrollee capacity (supported by each health plan's RBC as of May 17, 2004) and their PCP to enrollee ratio. Additionally, the State will give consideration to each health plan's administrative capabilities and financial performance.

In McLaren Health Plan's RFP response, our RBC of 577% allowed us to bid the *maximum enrollee capacity* in all its 15 counties. This should result in being awarded the *maximum number of points* for that measure. Due to our vast number of contracted PCPs we also expect to have earned the *maximum number of points* for this measure in every county we bid. Therefore, in addition to solid quality scores and strong financial and administrative performance, we believe it is *very likely McLaren Health Plan will be awarded a new Medicaid contract* in these two counties effective October 1, 2004.

6. **PROVIDER NETWORKS CAN ACCOMODATE MORE MEMBERS**

As stated above, McLaren Health Plan's contracted provider network is very expansive and rivals any other HMO in both Genesee and Lapeer Counties. The

summary information regarding McLaren Health Plan's network verses TWP's in these two counties is as follows:

GENESEE COUNTY

<u># of Contracted MHP PCPs</u>	<u>Current MHP PCP:Member Ratio</u>	<u>MHP Post-Purchase PCP:Member Ratio</u>
PCPs: 143	1 PCP:44 Members	1 PCP:125 Members

TWP currently has 136 contracted PCPs in Genesee County

<u># of MHP Contracted Specialists</u>	<u># of TWP Contracted Specialists</u>
Specialists: 689	402
Hospitals: 2	2

The State ideally would like a PCP:Member ratio of 1:500. As evidenced above, if McLaren Health Plan were to acquire the current 11,622 TWP members in Genesee County, our contracted network of PCPs would continue to far surpass the State's ideal scenario and the TWP members would have access to a greater number of both PCPs and specialists than they do currently.

LAPEER COUNTY

<u># of Contracted MHP PCPs</u>	<u>Current MHP PCP:Member Ratio</u>	<u>MHP Post-Purchase PCP:Member Ratio</u>
PCPs: 28	1 PCP:130 Members	1 PCP:143 Members

TWP currently has only 3 contracted PCPs in Lapeer County

<u># of MHP Contracted Specialists</u>	<u># of TWP Contracted Specialists</u>
Specialists: 133	13
Hospitals: 1	0

Again, as evidenced above, if McLaren Health Plan were to acquire the current 360 TWP members in Lapeer County, our contracted network of PCPs would continue to surpass the State's ideal scenario and the TWP members would have access to a greater number of PCPs, specialists and local hospital than they do currently.

7. OVERLAP OF NETWORKS

According to the due diligence data provided, approximately 97% of TWP's current members in Genesee County are being seen by PCPs that are already contracted with McLaren Health Plan. Therefore, *97% of TWP members in Genesee County will continue to see his or her established PCP without interruption.* These PCPs are members of the Hurley PHO, which has an ongoing positive working relationship with McLaren Health Plan. So much so,

Mr. Dan George, President & CEO of the Hurley PHO, offered to write a letter of support, which is included (*ATTACHMENT 3*).

In Lapeer County, 100% of TWP's current members are being seen by PCPs that are already contracted with McLaren Health Plan. Therefore again, *100% of TWP members in Lapeer County will continue to see his or her established PCP without interruption*. Additionally, McLaren Health Plan has a contract with the sole hospital in Lapeer County, an added benefit to the member that TWP does not offer.

McLaren Health Plan is committing to contact those physicians where there is not an overlap of the two networks to invite them to participate with McLaren Health Plan as appropriate.

8. NECESSARY REGULATORY APPROVALS

While making a purchase offer to acquire another HMO's members is new to McLaren Health Plan, it is anticipated that both OFIS and MDCH will give the necessary regulatory approval for this particular transaction to occur given our full and continued compliance with all regulatory requirements.

9. TRANSACTION CONTINGENCIES

McLaren Health Plan is requesting two simple contingencies for this transaction to occur:

- Be awarded a new Medicaid contract for both Genesee and Lapeer Counties effective October 1, 2004
- Be allowed to collaborate with the MDCH on the letter that will be sent to current TWP members in these two specific counties notifying them of the change of health plan due to this sale as well as the upcoming open enrollment opportunity. We understand MDCH will have final say as to the content

No other transaction contingencies are required, other than those of a regulatory or judicial nature that OFIS deems necessary.

10. AUTHORIZED EXPIDITOR

As President & CEO of McLaren Health Plan and an officer of the company, Ms. Kathy Kendall is authorized to tender this offer, negotiate with the State and execute any sale documents should this offer be accepted.

11. CONTACT INFORMATION

If you have any questions or need additional information or clarification, please contact;

Kathy Kendall, B.S.N., M.M.
President & CEO
McLaren Health Plan
G-3245 Beecher Road

Flint, MI 48532

Telephone: (810) 733-9700

Fax: (810) 733-5788

E-Mail: kathyk@mclaren.org

We believe our offer meets your stated goals of ensuring continuity of care to the current TWP members in Genesee and Lapeer Counties and maximizes the value to the TWP creditors. Again in summary, the key attributes of this offer are:

- Predictable purchase price which places McLaren Health Plan at risk for up to a 10% attrition in the number of TWP members rather than the creditors
- Virtually a complete overlap of the PCP network, therefore there will be no interruption in the patient/physician relationship
- Not requiring any provider to honor their current TWP contract
- TWP members will have access to a much larger provider network than they have currently

We appreciate your giving our offer consideration and look forward to hearing from you in the near future. Again, please feel free to contact me if you have any questions or require clarification.

Sincerely,



Kathy Kendall, B.S.N., M.M.

President & CEO

McLaren Health Plan

STATE OF MICHIGAN
CIRCUIT COURT FOR THE 30TH JUDICIAL DISTRICT
INGHAM COUNTY

LINDA A. WATTERS, COMMISSIONER,
OFFICE OF FINANCIAL AND INSURANCE SERVICES
FOR THE STATE OF MICHIGAN,

Petitioner,

Case No. 03-1127-CR

v

Hon. William E. Collette

THE WELLNESS PLAN,
a Michigan Health Maintenance Organization,

Respondent.

AFFIDAVIT OF JUDITH A. WEAVER

State of Michigan)
) ss
County of Ingham)

JUDITH A. WEAVER, being first duly sworn, deposes and says that:

1. I am a Deputy Commissioner of the Office of Financial and Insurance Services in charge of the Supervisory Affairs & Insurance Monitoring Division.

2. I have been employed by the Office of Financial and Insurance Services for approximately 20 years.

3. My responsibilities include: monitoring the financial condition of insurance entities licensed to do business in Michigan; recommending appropriate regulatory action to the Commissioner when necessary; overseeing the receivership unit; overseeing consultants hired as part of the receivership proceeding, including Deputy Rehabilitators, and acting as directed by the Rehabilitator; overseeing the financial review of applications for licensure and making

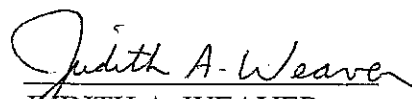
recommendations; and overseeing review of applications for approval for change of control and make recommendations.

4. I am familiar with The Wellness Plan, including its financial condition and its rehabilitation before this Court.

5. I have assisted the Rehabilitator by working with the Deputy Rehabilitators in the management of The Wellness Plan, engaging in communication with potential buyers, participating in discussions with potential buyers, participating in the Rehabilitator's request for bid process, overseeing the due diligence process, and participating with the Rehabilitator in the process to review, analyze and evaluate the bid submissions.

6. I have assisted the Rehabilitator by reviewing and analyzing the offers submitted in response to the Rehabilitator's May 12, 2004 solicitation of bids.

7. I participated in drafting and approving the Petition for Approval of the Rehabilitator's Plan to Sell the Right to Serve the Members of the Wellness Plan. To the best of my knowledge and belief, the factual allegations set forth in the Petition concerning the financial reporting information, the request for bid and selection process, and the description of the offers are true.


JUDITH A. WEAVER

Subscribed and sworn to before me
this 18th day of June, 2004.



STEPHANIE ANDREADIS

Notary Public, Eaton County, MI

(Acting in Ingham County)

My Commission Expires: 11/21/07